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Dominican Republic

Retail Food Sector

Annual

2006

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Report Highlights:

Although over 70% of food products are sold through mom and pop's stores (colmados), supermarkets are the most important distribution channel for imported products. The major supermarket chains import directly as well as have exclusivity rights for certain brands.

Includes PSD Changes: No
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Annual Report
Santo Domingo [DR1]
[DR]

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RETAIL FOOD SECTOR REPORT

I. MARKET OVERVIEW

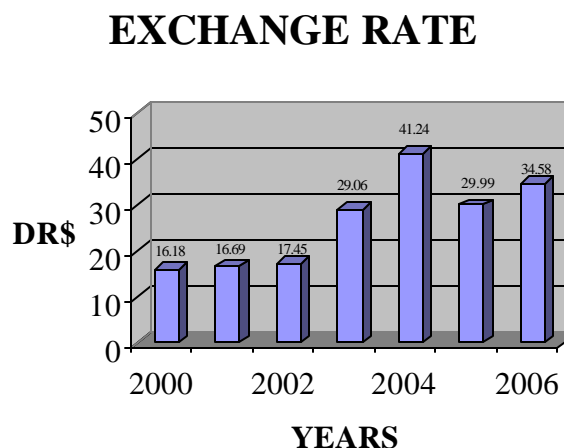
a) The Economic Situation

After recovering from the financial crisis in 2003, the Dominican economy has a promising outlook. The Fernandez administration, which took power in August 2004, launched an economic adjustment and stabilization program aimed at restoring macroeconomic stability, a program that was renewed in late January 2005 with the signing of a standby agreement with the International Monetary Fund (IMF). This program has imposed stringent adjustments, especially in public finance and the banking sector, the main sources of the imbalances that undermined stability and encouraged the outflow of capital in recent years.

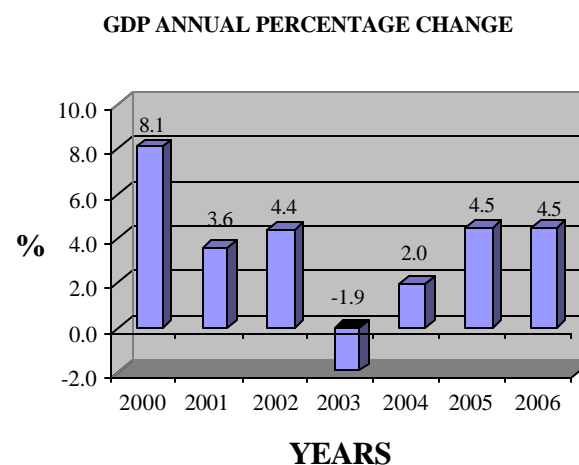
The Economist stated that the government's main challenge is to consolidate the stabilization process. After a doubling of the public debt/GDP ratio to 57% under the previous administration, the fiscal adjustment has reduced this ratio by 10 percentage points at end of

2005. Policy will continue to be guided by the 28-month stand-by arrangement with the IMF that expires in July 2007.

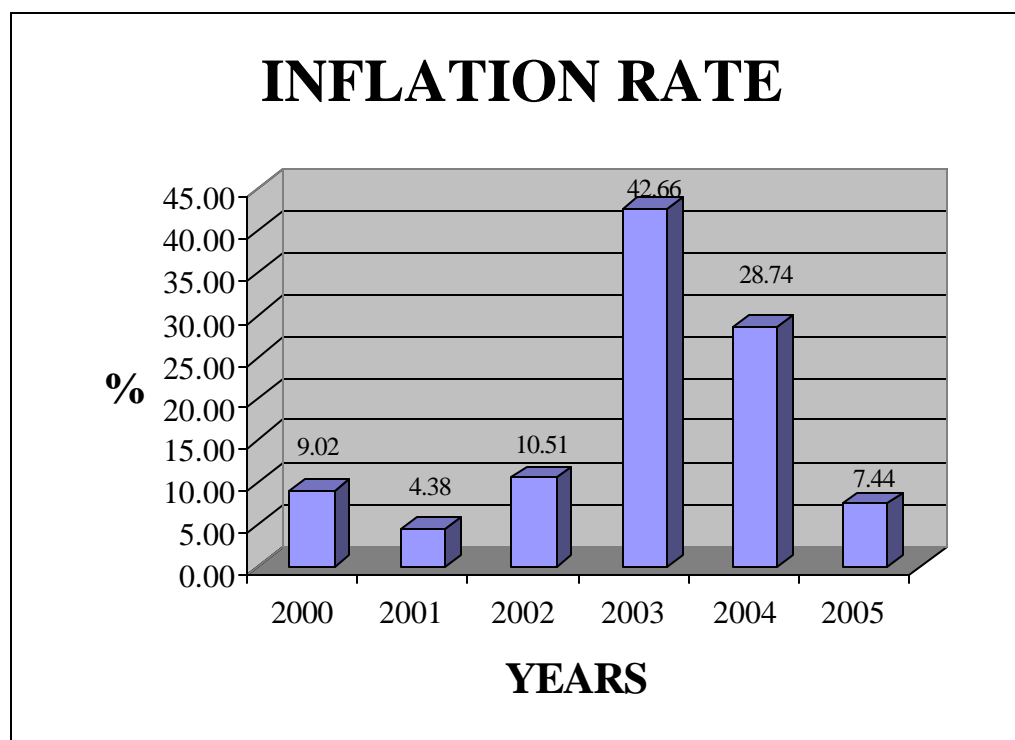
Currently, the exchange rate of the Dominican peso is stable between DR\$34.00 and DR\$35.00 to US\$1.00. The International Monetary Fund forecasts that the Gross Domestic Product (GDP) will grow by a 4.5 percent in 2006, with inflation returning to single digit levels (7.44%).



Source: Central Bank of the Dominican Republic and IMF
* IMF Estimates



Source: Central Bank of the Dominican Republic and IMF
* IMF Estimates



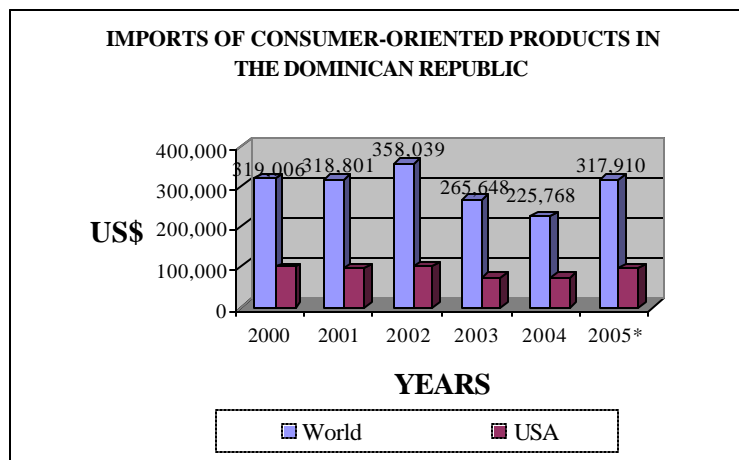
Source: Central Bank of the Dominican Republic

b) The Dominican Food and Beverage Market

The Dominican Republic is the fourth largest market for U.S. agricultural products in the Western Hemisphere, behind Mexico, Canada, and Colombia, with calendar 2005 exports of \$517 million. Exports have normalized since the financial crisis in 2003, with the expectation of a continued increase as tourism grows and DR-CAFTA commences.

According to statistics provided by the Central Bank, the total demand for food and beverages was estimated at about US\$2 billion, with an average growth rate of six percent per year. It is also estimated that about 40 percent of all food and beverages consumed in the country are imported.

According to data from the United Nations database, about 35% of consumer-oriented products imported in the Dominican Republic comes from the United States. In 2004, the Dominican Republic imported \$226 millions of consumer-oriented products and \$78 million were from the United States.



Source: FAS BICO Report and UN Trade Database
 * World total for 2005 was estimated based on the average U.S. Market share

Consumer-oriented products exported from the United States to the Dominican Republic represent about 17 percent of total agricultural exports. From calendar year 2000 to 2002, which was a normal period prior to the financial crisis, U.S. exports of consumer-oriented products averaged \$100 million. For 2003 and 2004, exports went down to \$74 million. However, last year, exports increased to over \$95 million. This means the market is reaching the same level as before the crisis and it will continue to be one of the major markets for U.S. products.

Over 70 percent of retail food products in the Dominican Republic is sold through the traditional system of mom n' pop stores called *Colmados*, 25 percent through modern supermarkets, and about five percent by wholesalers. However, this is the market segment through which imported products reach the middle and upper classes, the target market of most U.S. exporters.

In the Dominican Republic, the general trend in distribution channels has been to reduce the role of intermediaries. Many importers and local producers are distributing their products directly to retailers. The importation and distribution of processed food and beverage products is carried out by both independent importers/distributors, who are the main players for this sector, and through direct importation by supermarkets. The large supermarket chains are importing directly a basic line of food products, which they handle exclusively. For example, Supermercados Nacional carries the private label brands from Supervalu, such as Flovorite, Nutri Plan, Home Best, and Shoppers Valu. Supermercados Bravo imports a basic line of products from IGA. Grupo Ramos (Supermercados Pola) has the exclusive representation for Shurefine and Valuetime. In addition, Grupo Ramos has First Class, which is its own private label brand. These product lines are used in much the same way as store brands to provide a price competitive line of basic products to customers.

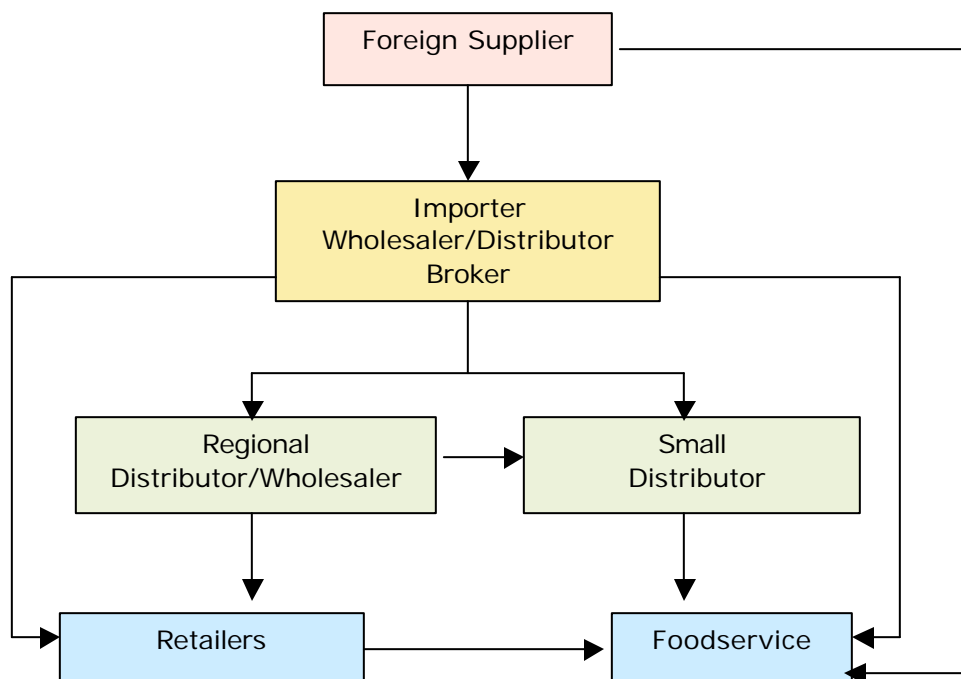
Gas marts began to appear in this country in 1995 and expanded during the 1990s. In 2005, there were 43 gas marts in the country that belonged to the four major gasoline companies, Shell, Texaco, Esso, and Isla.

Although the Dominican Republic generally complies with WTO regulations, obtaining import permits for meat and dairy products is still one of the main constraints facing importers of these products. Due to the uncertainties in the process for granting import permits, it is too risky to ship products before having received a permit.

Some of the advantages and challenges facing U.S. exporters in the Dominican market are the following:

Advantages	Challenges
<ol style="list-style-type: none"> 1. The supermarket sector is well developed and the number of supermarkets has grown nationwide, providing greater market penetration for most imported food products. 2. Dominicans are greatly influenced by American culture and have a positive perception of U.S. products. 3. The Dominican Custom Service uses the WTO-approved method of customs valuation, which requires that duties be applied to actual invoice prices of imported goods, rather than average or calculated price for imported goods. 4. The DR-CAFTA agreement, when it is implemented, will increase the competitiveness of U.S. products 5. The economy is stable and with a promising outlook. 	<ol style="list-style-type: none"> 1. The government expanded the scope of the value added tax (ITBIS) to compensate for the forgone income when the free trade agreement is implemented. 2. Local producers and processors are becoming more competitive in quality and price to take advantage of the free trade agreement. 3. Globalization has allowed other regions, such as Europe, South American and Asia, to expand sales into what has traditionally been a U.S.-dominated market. 4. Imports of some products, including milk, beans, rice, and poultry, are restricted by tariff rate quotas to protect local producers. 5. Other countries, like the European Union, are trying to sign a free trade agreement with the Dominican Republic.

MAIN DISTRIBUTION STRUCTURE



II. ROAD MAP FOR MARKET ENTRY

a) Supermarkets

Entry Strategy

The best way to enter the Dominican market is through a local importer/distributor. These importers/distributors are familiar with the market, business practices, and related laws. They are able to establish direct contacts with other buyers in the country.

The large supermarket chains have established independent companies to import food products and beverages. As wholesalers, these companies resell the imported products to regional/small wholesalers/distributors, restaurants, retailers and food service institutions. As retailers they use their own supermarkets to reach the consumers.

Supermarkets have a buying structure that depends on their size, which varies from 3,000 to 60,000 square feet. The largest supermarket chains have purchasing departments with several buyers, specialized by product line. Normally, supermarkets have no more than three to five brands of one type of product, and the selection of these brands is based on competitive advantage criteria for the business and for customers. Usually, quality and price are the two most important variables that affect this decision. Consumers consider U.S. products as high quality ones.

Market Structure

- Normally, products are imported through an importer or agent, who may also be a wholesaler and/or distributor.
- In the case of large supermarkets, most have a separate company, in a holding group, which assumes the function of importer/distributor.
- Logically, supermarkets will prefer products that are imported by their own companies, but they do purchase products from other importer/distributors.
- While some small supermarkets are closing, the big supermarket chains are always looking for new locations both in Santo Domingo and other cities to take advantage of the growing population.
- According to national laws, any business may import goods directly.
- Purchasing managers of some supermarkets chains estimate that the sales of imported products in their establishments are between 40 and 45 percent of total sales, of which about 50 percent of these are U.S. products.
- Floor space of the largest supermarkets (Nacional, Pola, Bravo, La Cadena, Plaza Lama, Carrefour, Hiper Ole, and PriceSmart) ranges from 10,000 to 35,000 square feet and they have 8 to 15 cash registers per establishment.

Table 2.a. PROFILE OF THE MAJOR SUPERMARKETS

Name of Retailer	Ownership	Outlets	Location	Purchasing Agent
Supermercados Nacional (Including 2 Jumbo Hypermarkets)	Dominican/Spain	20	Santo Domingo Santiago La Romana	Direct importers Wholesalers/Distributors
Supermercados Pola	Dominican/Spain	9	Santo Domingo Santiago San Francisco de Macoris	Direct importers Wholesalers/Distributors
Supermercados La Cadena	Dominican/Spain	6	Santo Domingo	Direct importers and distributors
Supermercados Plaza Lama	Dominican/Spain	3	Santo Domingo	Direct importers and distributors
Supermercados Bravo	Dominican/Spain	3	Santo Domingo	Direct importers and distributors
Price Smart Warehouse	US	2	Santo Domingo Santiago	Direct importers and distributors
Carrefour	French	1	Santo Domingo	Direct importers and distributors
Hipermercados Olé	Dominican/Spain	5	Santo Domingo San Cristobal	Direct importers and distributors

Source: FAS/Post Internal Research

Company Profiles

Supermercados Nacional

Supermercados Nacional is the largest supermarket chain in the Dominican Republic. It has ten stores located in the cities of Santo Domingo, Santiago and La Romana. This chain is the pioneer of the Dominican supermarket business. Centro Cuesta Nacional (CCN) manages the chain, which has its own procurement and distribution center to source products and supply the stores.

Centro Cuesta Nacional also established a new store concept called La Despensa to target the lower-income population. Currently, La Despensa has six outlets.

Another concept established by Centro Cuesta Nacional is the Jumbo hypermarket. So far, it has opened two stores, one in the eastern part of Santo Domingo and the other one in La Romana.

The Supermercados Nacional stores are modern and spacious. The outlet in La Romana is located inside Casa de Campo, one of the most exclusive resorts in the country. Because of the nature of this outlet's location, it carries a lot of gourmet products that are not usually found in the other outlets. Its private label brands are Flovorite, Nutri Plan, Home Best, and Shopper's Valu.

Supermercados Pola

This is the second largest supermarket chain in the country. The chain is owned by the Ramos Business Group (Grupo Ramos). Supermercados Pola has eight outlets located in Santo Domingo and Santiago. Importadora Oceanica is the company within Grupo Ramos that handles imports and distribution of food and beverage products. This company works almost the same way as Centro Cuesta Nacional and also has exclusive representation of different brands. It sells its products through Supermercados Pola and supplies other retailers, as well.

Supermercados La Cadena

This supermarket chain was established in 1999 after some of the members of the Ramos family, owners of Supermercados Pola, decided to start their own supermarket chain. The supermarket started with only one store and it currently has six outlets in Santo Domingo. The supermarkets are owned and managed by Mercatodo, S.A.

Supermercados Bravo

The owner of Supermercados Bravo, Rafael Monestina, was one of the founders and owners of Supermercados Pola. The owner left Supermercados Pola to start his own import business, BEMOSA. Later, in the 1997, Mr. Monestina decided to go back to the supermarket business and started the project to established Supermercados Bravo. The first store was inaugurated in 1998. Currently, Supermercados Bravo has three stores in Santo Domingo and plans to open another store this year.

Supermercados Plaza Lama

The original focus of the Plaza Lama store was as a retailer of appliances, shoes, and clothing. In 1991, they added dry food products to provide additional services to the customers. The first real supermarket with full lines of grocery and frozen products was established in 1995. Another supermarket and a mini market were opened in 1999.

In 2001, Plaza Lama opened a centerpiece-shopping complex in one of the main commercial areas of Santo Domingo. The plaza included the largest supermarket of the Plaza Lama's chain and it includes a deli and a gourmet product section. Currently, the chain has three supermarkets and a mini market all located in Santo Domingo. The supermarket portion of the Plaza Lama business is currently the second largest department following appliances. It seems likely that supermarkets will evolve into the main business in the near future.

b) Convenience Stores and Gas Marts

In addition to the ubiquitous mom-and-pop-type corner store (*colmados*), there are a growing number of gas marts in the Dominican Republic. These locations are not identical in format to those in the United States in that they are smaller and serve little hot food, focusing on snack foods and beverages. As a business model, they have one important drawback--attendants who pump gas and collect money, so customers do not have to enter the store to pay for gas serve the gasoline station. This means that a majority of gas customers never enter the store, reducing the sale of impulse items on which these stores usually thrive.

Market Entry

As indicated above, there are a limited number of products that can be introduced in these stores. If you are a snack food or beverage company or you are willing to do the pioneering works to get these stores to carry your hot food products, these could be a good point to introduce your products. These stores prefer to buy directly from importer/distributors that have direct distribution systems. Our recommendation is to make contact with the companies themselves and the importer/distributors that already supply them to do the initial work necessary to expose them to your products.

Market Structure

Most of the convenience stores located in gas marts are managed according to norms established by the gasoline company. These stores are relatively new, having appeared only within the past 9-10 years. Texaco has about 7 Star Mart outlets. Shell has 11 Select stores. Esso has 21 (4 On the Run and 17 Tiger Market), Isla has 4 Mini Markets, which they are leasing out.

Table 2.b. PROFILE OF THE MAJOR CONVENIENCE STORES

Name of Retailer	Ownership (Local/ Foreign)	Number of Outlets 2005	Location	Purchasing Agent
On the Run (4) & Tiger Market (17) (Esso)	Dominican	21	Nationwide	Distributor
Star Mart (Texaco)	Franchise/ Dominican	7	Nationwide	Distributor
Select (Shell)	Dominican	11	Santo Domingo	Distributor
Mini Mart (Isla)	Dominican	4	Santo Domingo	Distributor

Source: Ag Office Internal Research

c) Traditional Markets - "Mom-and-Pop" Corner Stores

Market Structure

There are over 60,000 small mom n' pop stores in the country, referred to locally as *Colmados*. Over 1,600 food wholesalers nationwide supply these *colmados*. Most of these suppliers are located in the Santo Domingo and Santiago areas. The *Colmados* have refrigeration systems for drinks (beers, juices and soft drinks), but only very few have storage for fruits and vegetable. Because the electrical supply in the country is very unstable, many of them do not handle perishable foods. In middle and upper-class areas, the stores thrive on home deliveries of items, such as beverages and other individual items for which the customer is willing to pay a higher price to avoid a trip to the supermarket.

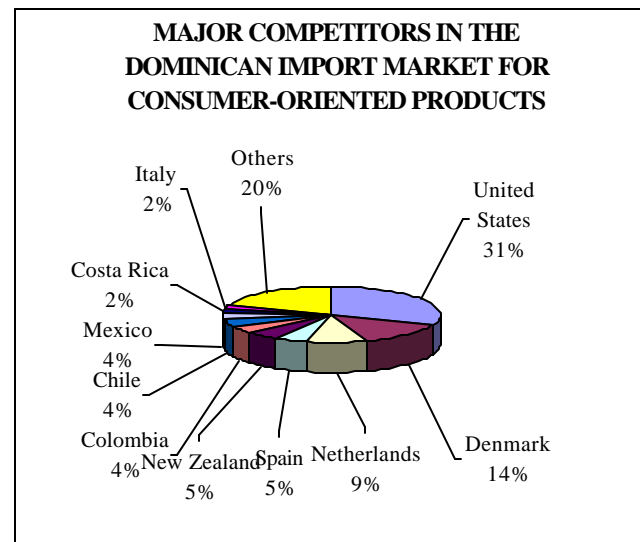
Colmados account for a large portion of national sales, but sell a very limited line of products, which include a large percentage of domestically produced products (around 80 percent). They also tend to sell in very small quantities and at prices 5 to 15 percent higher than the supermarkets. Middle and upper class consumers generally make large weekly shopping trips to supermarkets, where there is a better selection of products and lower prices. They supplement this with small purchases at the nearest *colmado*.

III. COMPETITION

Reliable statistics on the total consumption of food and beverages in the country are not available. Importers and retailers estimate that about 40 percent of all food and beverages consumed in the country is imported.

According to data from the United Nations database, between 30 and 35 percent of imported consumer-oriented products in the Dominican Republic comes from the United States. The other major suppliers are Denmark, Netherlands, Spain, New Zealand, Colombia, Chile, Mexico, Costa Rica, and Italy.

The DR-CAFTA, agreement after implementation, will increase the competitiveness of U.S. products.



Source: FAS BICO Report and UN Trade Database
Data are based on the average from 2000 to 2004

IV. BEST PRODUCTS PROSPECTS

Dominican importers and consumers have shown high interests in the following products:

**U.S. Exports to the Dominican Republic
(Thousand of Dollars)**

PRODUCTS	2005
1. DAIRY PRODUCTS	18,540
2. RED MEATS, FRESH/CHILLED/FROZEN	11,047
3. POULTRY MEAT	9,266
4. FRESH FRUIT	9,084
5. SNACK FOODS (EXCL NUTS)	8,814
6. PROCESSED FRUIT & VEGETABLES	7,755
7. WINE & BEER	4,601
8. FRUIT & VEGETABLE JUICES	3,817
9. BREAKFAST CEREALS & PANCAKE MIX	3,533
10. RED MEATS, PREPARED/PRESERVED	2,127

Source: FAS BICO Report

Products Not Present in Significant Quantities but with Good Sales Potential

There are few products from the United States, which have not been already introduced into the Dominican market. The Dominican Republic usually follows the same trend as the United States. Dietary and healthy products, although not present in large quantities, do have a small but growing niche in the Dominican supermarket sector. There are also health food mini-stores, which are also being opened in response to public demand. As the market opens, demand for low-carb and healthy products will likely grow. After the BSE case was found in the United States, Government officials restricted the import of pet foods. Importers needed to look for other suppliers in Central America. We consider that as soon as this market access problem is resolved, the United States will continue to be the major supplier again.

Products Not Present Because They Face Significant Barriers

There are tariff rate quotas for eight basic commodity groups (chicken, onions, garlic, dried beans, corn, rice, sugar, and milk powder), which limit imports. The main import barrier faced in the market is the difficulty and arbitrariness in obtaining import permits for meat and dairy products.

V. POST CONTACT AND FURTHER INFORMATION**FOREIGN AGRICULTURAL SERVICE**

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The Foreign Agricultural Service home page at <http://www.fas.usda.gov> has useful information on how to export to the Dominican Republic, including a report titled "Exporter Guide to the Consumer Food Market".